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SUBJECT: UNODC Financial Crisis: Tough Choices But Silver Lining?

Ref: A) UNVIE 00033, B) STATE 07023

Summary

¶1. (SBU) Unexpected declines in UNODC's General Purpose Fund (GPF) contributions have created a financial crisis within the UNODC. Compounding that assessment are interest losses stemming from the world financial crisis and the inherent difficulties associated with managing an exploding Special Purpose Fund (SPF) revenue stream. As a result, UNODC management is freezing hiring for a number of senior positions and pondering other measures. Their concern that the worst is yet to come is leading senior management to consider strategic realignments in Vienna and closure of several field offices to guarantee long term financial solvency. Mission believes that if UNODC can get its organization and financial house in order, a leaner, more efficient and more marketable Office can emerge, but we need to assert member state leadership and avoid cuts that short change UNODC's key norm-setting role. END SUMMARY

Current Crisis GPF Driven

¶2. (SBU) In recent conversations with a number of UNODC officials, Missionoffs learned of a looming financial crisis at the UNODC. Elaborating on a point he foreshadowed to Ambassador Schulte (reftel A), UNODC Executive Director Antonio Costa told his staff on February 10 that GPF contributions had shrunk from an average of USD 21 million annually between 1992-1998 to projected USD 13 million in ¶2009. According to one senior manager, the decrease was a result of Italy reducing and re-allocating its contributions to the UNODC, causing a drop of over USD 1 million. In addition, UNODC lost about USD 1 million in interest income as a result of falling interest rates. The combined effect was a USD 2.2 million dollar shortfall in the GPF for 2009. Furthermore, the SYG had requested UNODC to find 2 pct savings in its regular budget funds.

¶3. (U) 50 pct of GPF is spent in Department of Operations (DO). 30 pct goes to Department of Policy Analysis (DPA). The Executive Director's Office consumes 10 pct of the PGF, while the Division of Management uses the remaining 10 pct.

Current Crisis Just the
"Tip of the Iceberg"

¶4. (SBU) UNODC officials privately asserted that this USD 2.2 million shortfall was just the tip of the iceberg. They noted that this was the shortfall they knew, but given the deteriorating financial situation, they were worried that the worst was yet to come. One well-placed secretariat source projected that the GPF shortfall could reach over USD 4 million, based on shrinking Italian

GPF contributions, and Norwegian, Irish and Japanese hints that they too were considering cutbacks to the GPF.

¶5. (SBU) As a sign of the times, this source asserted that in January 2008, 13 countries had fully paid their regular UN assessments. This year, he stated, perhaps only 7 had done so. The UK, which prides itself on fully and promptly paying its assessments, has informed New York that it will pay 25 pct now, and hopes to make up the balance through the year, as a result of the weakening pound.

¶6. (SBU) Our source also expected a hit to SPF contributions. Although he was not sure whether it would be an absolute decline in dollars, or rather a slowing of the exploding growth in SPF donations, there would definitely be a decrease in the amount of earnings from program support costs (PSC) that UNODC can deploy. As a result, UNODC has decided that there can be no growth in any PSC-funded activities for the foreseeable future.

¶7. (SBU) This interlocutor stressed that UNODC officials, while worried about the current shortfall, were even more concerned about the financial situation of the UNODC in 2-3 years. The financial crisis is hitting markets and citizens now, he stated, but its full impact would not be felt by governments until perhaps 2010. When that happens, he worries governments will tighten their belts even further, and UNODC-type assistance will be the first on the chopping block. Therefore, our UNODC interlocutors privately insist that now is the time to "get our house in order, and prepare for the next 4-5 years."

"Low Hanging Fruit"
Is First to Go

¶8. (SBU) In order to make up for the USD 2.2 million shortfall, UNODC has immediately implemented a number of measures. UNODC contacts provided Missionoff with internal documentation and his own explanations for how UNODC intends to rectify its financial crisis.

¶9. (SBU) These measures include freezing a D-1 position in the division of Policy Analysis (DPA), P-3 and P-5 positions in the Independent Evaluation Unit (IEU), and two P-4's and a P-3 in Division of Operations (DO). He estimated that these measures would realize over USD 940,000 in savings.

¶10. (SBU) In addition, UNODC will look to reassign and regularize staff from GPF posts into vacant regular budget (RB) posts. This includes a number of positions, most notably the D-2 position for Division of Treaty Affairs (DTA) Director for which we have lobbied (ref B). The vacancy announcement for this position was canceled on/about February 10. This GPF to RB maneuver assumes that there are GPF-funded staff who are qualified and willing to serve in the vacant RB posts. UNODC realistically estimates a savings of nearly USD 500,000 through these measures.

¶11. (SBU) In addition, a senior UNODC official told us that the UNODC could reduce cost inefficiencies by combining duplicative programs of different divisions. For example, the Division of Treaty Affairs (DTA) and Division of Operations (DO) both run technical assistance programs for implementing the UN Convention against Corruption (UNCAC). The relevant offices from the two divisions may have duplicative programs and often compete for donor funds. Having them develop joint programs will eliminate duplication, although the two do not necessarily need to be combined into one office. He noted that recent DTA anti-piracy activity was a good example of joint DTA-DO programming. Such joint programs would allow for the deployment of GPF funds which finance most of the positions in DO, whereas DTA has about 30-40 RB posts. This official also cited the inefficiency in certain field offices, noting as examples that UNODC's field offices in Bolivia and Vietnam do not generate sufficient programs to justify GPF-funded posts. He plans to freeze two positions in the field, and turn small-volume field offices into strictly project offices, funded by earmarked project contributions.

¶12. (SBU) Our contact expressed support for economizing meetings,

citing for example the three annual HONLEA (Heads of National Law Enforcement Agencies) meetings as being too frequent. He suggested that they could take place every two or three years, freeing up the staff to do other things. He also proposed more burden-sharing by countries hosting UNODC field offices. For example, he said, UNODC considered closing its Mexico City office a few years ago. That did not happen because of resistance from the Mexican government. Today, the Mexican government provides USD 300,000 as well as premises for UNODC's office there. Management had also talked about turning away small projects which would be inefficient to run. He mentioned that the threshold size could be USD 200,000 to USD 300,000, but emphasized that there was no consensus yet to take such a step.

¶13. (SBU) Both he and another senior official cited travel and consultants as another area to save money. One of them mentioned that Executive Director Costa would have to cut back on his heavy travel schedule. The other agreed that flying economy class could also be an alternative.

Fundamental Realignment
In 3 Easy Steps!

¶14. (SBU) UNODC officials speaking privately to Missionoffs have asserted that the current financial crisis might serve as an impetus for fundamental realignment in headquarters and in the field. In their view, the allocation of four UNODC headquarters divisions - Operations, Treaty Affairs, Management and Policy Analysis/Research -- is not rational. Neither is the distribution of RB-funded and GPF-funded posts. These problems are exacerbated by the New York views of UNODC - that its norm-setting focus is treaty implementation, and that technical assistance should be funded by voluntary contributions. One interlocutor questioned the distribution of field offices, saying that given an opportunity to start from scratch, UNODC would locate field offices very differently.

¶15. (SBU) With this in mind, these UNODC managers see a "silver lining" to the crisis: it could lead to greater efficiencies, a more coherent operational structure, and a better "product" to market to donors, especially in terms of thematic and regional programming.

¶16. (SBU) Our well-placed expert contact predicted the first move would be to abolish the Independent Evaluation Unit (IEU). Our source noted other UN entities already have abolished "Planning Monitoring and Evaluation" units, so this would not be unprecedented. (Note. Mission believes G-77 and EU will adamantly oppose this move, as they will see it as a total defeat of evaluation's "independence and integrity." End note.)

¶17. (SBU) The second move would be to abolish the DO, and merge it into DTA. The DO Director would become the head of the new DTA (an RB post). The third and final move, our source indicates, would be to close a number of field offices, and move towards "regional hubs." Field offices already on the chopping block include Bolivia, Laos, Vietnam, Burma and Russia. Echoing the comments made by the senior managers, source stated that, for example, there are "P-5 and D-1s in those offices who do not add anything." By reducing the field offices and folding them into larger regional hub offices, redundancies may be eliminated and efficiencies maximized.

Anchor UNODC Headquarter to RB Positions

¶18. (SBU) The overall goal, our source argued, would be to "anchor the UNODC to RB positions." By doing so, GPF and SPF shocks - either in rapid increase or decrease - would not be so threatening to UNODC's foundation. Over the long term, our contact agreed, "we have to be leaner, and right now we are too dependant on SPF and GPF money - especially at headquarters." If UNODC can create a more marketable product, especially in terms of thematic programs, GPF contributions and "soft earmarking" may increase. This would help implement UNODC's programs themselves, but headquarters would be more immune to financial shocks, as its functions and posts are more tied to RB funds.

Comment

¶19. (SBU) Missionoffs note a genuine sense of shock among UNODC officials about how fast this crisis has hit, but also how quickly UNODC is responding. And while Mission shares UNODC's concern about the GPF shortfall and the resulting financial crisis, it also believes there is a potential silver lining to the cloud. Reorganization of its operations in Vienna and in the field could provide UNODC with an opportunity to emerge from this crisis as a leaner, more coherent and operationally effective office. As this process unfolds, we need to insist that the US and other key member states are consulted on management's plans (which have so far come to us as unauthorized and episodic leaks). We also need to ensure that needed cuts do not fall disproportionately on less marketable but still essential norm-setting activities. We will be watching carefully in the weeks ahead. If the UNODC can "get its house in order," its regional and thematic programs will be more appealing to donors, and attract more flexible donations as a result. END COMMENT

SCHULTE